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## The White House must love 'opposite day'

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It is a favored tactic in the Bush White House to take on tough criticism by boldly asserting the opposite.

Keeping clean air regulations from forcing further cuts in emissions is labeled a "clear skies" initiative. Judicial nominees who would bring the government into our bedrooms are defenders of liberty. And a scheme to gut Social Security and turn it into a money machine for the securities industry is a plan to "strengthen" that same system.

The latest in this series of 180-degree misdirections - reminiscent of when kids play "opposite day" - was Bush's assertion at a White House conference last week that moving forward with his proposals on Social Security would send positive signals to financial markets.

Say what?

Let's be clear about the what the president wants to do. He wants to put the nation another \$2 trillion in debt so that, over time, he and his conservative supporters can eliminate the Social Security system as we know it.

The financial markets may not care much about whether Americans have a retirement safety net, but those markets will react adversely to adding \$2 trillion in debt to the federal tab. For the president to say that the markets will be encouraged because Congress is taking up the issue is a flat-out lie. The markets are going to hate this, and so should anyone who actually thinks Social Security is worth hanging on to.

I know, I know, Bush says he's going to "preserve" Social



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Security, and suggestions that he's planning to shut down the program over the course of a generation sound like demagoguery. But there is nothing that conservatives like about Social Security, and given an opportunity to kill it over time, they'll take it.

Bush wants to allow younger workers to take a portion of the money now taken out of their paychecks and set it aside in personalized accounts.

This sounds innocent enough, but it's important to understand that the money we put into Social Security goes to two places. First it pays the benefits for current retirees. Next, some of it is invested in Treasury Bonds and set aside as a surplus, meant to help carry the system through lean times.

In time, the retiring Baby Boom generation will diminish the amount being set aside in surplus. Around 2018, the system will start using that surplus to pay benefits. About 2042 the surplus will be exhausted and the system will only be taking in enough to pay about 75 percent of promised benefits.

Allowing people to put less money into the Social Security system does not strengthen it. It weakens it. It means the system will start dipping into the surplus sooner and will run out of money to pay benefits sooner as well.

So how does Bush plan to "save" Social Security? Well, he figures that people will make so much money in their private accounts they won't mind if the system pays out fewer benefits.

Bush plans to find the money to pay for private accounts by cutting future Social Security benefits. In the meantime, the government will borrow the money it needs to pay current recipients, who have been promised no change in benefits by the president.

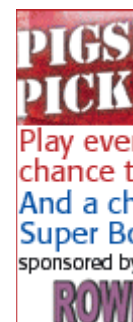
Over time, the Social Security system would morph from a shared safety net to a mandatory personal savings program with some tax benefits. The conservative vision is to continually increase the proportion of Social Security taxes going into private accounts until the safety net is gone.

This appeals to people who abhor the "social" in Social Security, but for the rest of us who think it makes sense to provide the elderly with a small guaranteed income, it's a huge loss.

Indeed, what the financial markets won't like is the fact that people could demand that the safety net stay in place. Congress will be under pressure to maintain the private accounts and keep a guaranteed benefit in place.

So, rather than getting out from under its debt by cutting Social Security benefits, the government will be mired in red ink for the indefinite future.

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Now, the negative effects of high government debt are not accrued incrementally. Just because we can manage the debt we have today without interest rates soaring, doesn't mean adding more debt will be harmless.

The risk is that the U.S. economy will hit a tipping point. When foreign investors begin to lose confidence in our ability to repay our debt, or worry that heavy debt payments by the government will be a drag on the economy, things change. Once those investors perceive more risk, they'll want a higher return on their money. That translates into higher interest rates and a very weak U.S. dollar.

Imagine the impact on the economy if, for example, credit card interest was at 30 percent and every item on store shelves that's foreign-made doubled in price. That's what could happen if we take on too much federal debt, and \$2 trillion is a lot of debt to add with a single act of the Congress.

All of this wouldn't be so bad if individual accounts were a good deal for most of us, but they aren't. Sure, putting money in the stock market will probably pay us back more than we get from Social Security.

But how would a lower guaranteed benefit under Social Security affect our retirement planning? Any 25-year-old brokerage jockey will tell you that you need a certain amount of low-risk, low-yield investments in your portfolio, and that as you age more assets should be put into these investments.

With a lower guaranteed benefit, most of us will have to put more of our retirement nest eggs into those lower-risk, lower-yield investments. That will negate gains we make from having the personal accounts under Bush's plan.

Meanwhile, those of us who don't invest wisely, or have little but Social Security, will have less of a safety net to count on.

The expected shortfall in Social Security can be eliminated by increasing our payroll tax contribution to the system by nine-tenths of a percentage point each for employees and employers. If we could live with half that amount in higher payroll taxes, then the system can be balanced with just a 7 percent cut in overall benefits.

Is that a crisis, or just an excuse to get rid of a program that conservatives loath?


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